555 Eleventh Street, N.W., Suite 1000
Washington, D.C. 20004-1304
Tel: (202) 637-2200 Fax: (202) 637-2201
www.lw.com

LATHAM&WATKINS LLP

FIRM / AFFILIATE OFFICES

Barcelona	New Jersey
Brussels	New York
Chicago	Northern Virginia
Frankfurt	Orange County
Hamburg	Paris
Hong Kong	San Diego
London	San Francisco
Los Angeles	Shanghai
Madrid	Silicon Valley
Milan	Singapore
Moscow	Tokyo
Munich	Washington, D.C.

REDACTED – FOR PUBLIC INSPECTION

March 3, 2008

FILED/ACCEPTED
MAR - 3 2008
Federal Communications Commission
Office of the Secretary

VIA HAND DELIVERY

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: *Consolidated Application for Authority to Transfer Control of XM Radio Inc. and Sirius Satellite Radio Inc.*, MB Docket No. 07-57

Dear Ms. Dortch:

In accordance with the Second Protective Order in above-captioned proceeding,[1] enclosed please find two *redacted* copies of the documents orally requested by the Commission on February 28, 2008, from XM Satellite Radio Holdings Inc.

Per the Protective Order, XM is filing, under separate transmittal, one unredacted copy with the Secretary's Office, and two unredacted copies with Jamila Bess Johnson of the Industry Analysis Division of the Media Bureau. The unredacted version of the complete document will be made available for inspection, pursuant to the terms of the Protective Orders, as applicable, at the offices of Latham & Watkins LLP, 555 Eleventh Street NW, suite 1000, Washington, D.C. 20004. Counsel for parties to this proceeding should contact Jeffrey M. Shrader at (202) 637-2184 to coordinate access after they comply with the terms of the FCC's Protective Orders.

---

1 *See Applications of Sirius Satellite Radio Inc. and XM Satellite Radio Holdings Inc. for Approval to Transfer Control*, Protective Order, MB Docket No. 07-57, DA 07-4666 (rel. Nov. 16, 2007).

No. of Copies rec'd 0
List ABCDE

Please direct any questions concerning this matter to me.

Respectfully,

/s/ Gary M. Epstein

Gary M. Epstein
Counsel for XM Satellite Radio Holdings Inc.

Enclosures

XM-S-0000001 through XM-S-0001692

[REDACTED]

From: Sloane, Richard

Sent: 3/14/2007 8:23:28 PM

To: Elisseeff, Pierre
Subject: Reports

(((XM))) SATELLiTE RADiO Richard Sloane Director, Investor Relations XM Satellite Radio 1500 Eckington Place, NE Washington, DC 20002-2164 202.380.1439 richard.sloane@xmradio.com
Attachment: CS Initiation Jul 24.pdf
Attachment: GS-Conundrum squared Why XM and Sirius should wait.pdf
Attachment: JPM Bear Case July 19.pdf
Attachment: JPM Merger Report.pdf
Attachment: Bear Merger Jan 07.pdf

XM-S-0001693

CREDIT SUISSE

INITIATION

24 July 2006
Americas/United States
Diversified Telecommunication Services
Cable & Satellite
UNDERWEIGHT

Equity Research

Satellite Radio Initiation

Satellite Radio Will Return to Orbit, But It's Too Early to Buy XM

- **We initiated coverage of Sirius Satellite Radio (SIRI) with an Outperform rating and XM Satellite Radio (XMSR) with a Neutral rating, with respective target prices of $6 and $17.**
- **Positive secular growth outlook.** We are bullish on the secular growth prospects for satellite radio and the long-term economics of the business model. We estimate satellite radio subscribers and revenue will grow at 32% and 45% CAGRs from 2006-2010, and long-term EBITDA margins will reach the 35% level with capex/sales of 2-3%.
- **Favorable risk/reward.** We believe that intrinsically, significant upside exists to current valuations for both stocks. However, a wide range of potential outcomes may yield a wide range of stock prices. We model five scenarios for each company and the range of outcomes varies from 25% downside to 155% upside potential for Sirius, and 25% downside to 230% upside potential for XM. We probability weighted these scenarios to arrive at our target prices.
- **An earnings momentum story,** driven by secular growth. Subscriber growth, pricing, churn, and cost per gross add (CPGA) are the key drivers of earnings estimates. This is not a valuation story given the lack of support from traditional valuation metrics; we suggest caution in calling the bottom for these stocks when more bad news is ahead, and vice versa in attempting to call the top.
- **Outperform on Sirius.** We believe earnings momentum will be positive for the next 12 months. We expect Sirius to beat both 2006 guidance and 2006 and 2007 consensus estimates for subscribers and revenue, because we believe Sirius will maintain retail share of gross adds in the 55% range and upside exists in OEM. Our 2006 estimates are 5% above guidance and 3% above consensus for net additions, and 2% above consensus for revenue. Our 2007 estimates are 5% above consensus net additions. We believe Sirius will announce a price increase in 2007-2008, which would drive further positive earnings momentum.
- **Neutral on XM.** We believe that earnings momentum will be negative in the short term. We expect XM to miss its 2006 subscriber guidance of 8.5 million, as well as consensus estimates for subscribers and revenue of 8.39 million and $935 million in 2006, and 11.16 million and $1,325 million in 2007. Our 2006 estimates are 6% below consensus for net additions and 2% below consensus for revenue. Our 2007 estimates are 3% below consensus for net additions and 7% below consensus for revenue. Over the long term we believe that XM is better positioned than Sirius in the OEM channel and will have greater earnings potential as the OEM channel matures (i.e., 2015-2020). However, we think it will take a longer period of time for XM's business model to come together and its earnings power to emerge.
- **Valuation gap is justified.** We believe that a valuation premium for Sirius is justified based on an analysis of per subscriber valuations. The terms of XM's agreement with GM are so onerous that we estimate the GM subscribers have an incremental value (before indirect costs) of only $150 versus $600-700 for a non-GM OEM subscriber and $900-1,100 for retail.

research team

Bryan Kraft
Research Analyst
212 325 3101
bryan.kraft@credit-suisse.com

John E. Klim
Research Analyst
404 897 2849
john.klim@credit-suisse.com

Philip Mutooni
Research Analyst
212 538 7446
philip.mutooni@credit-suisse.com

XM-S-0001694

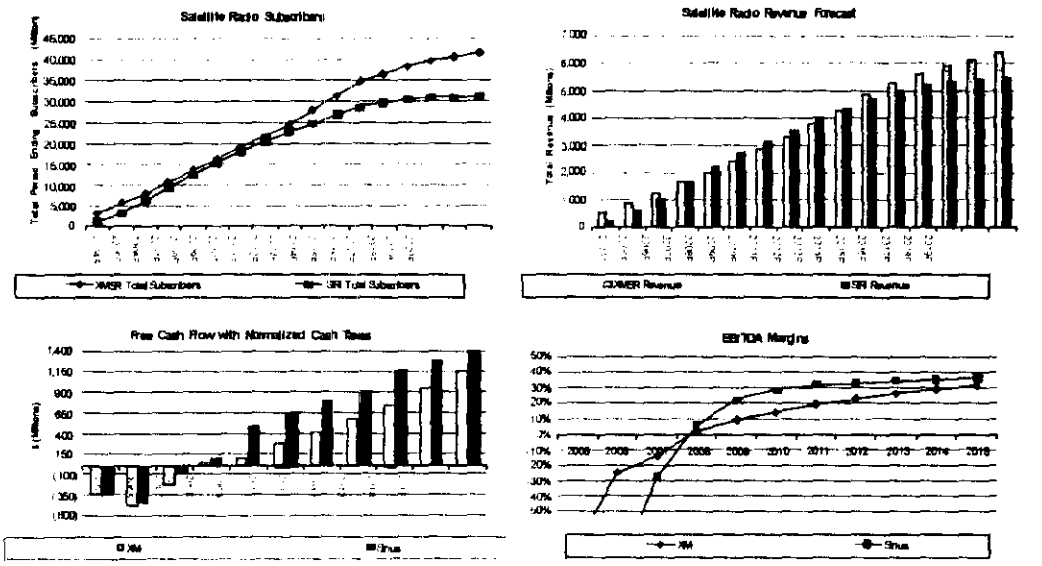
Investment Thesis and Key Issues

Bullish on Secular Growth Outlook

We like the growth prospects for satellite radio and the long-term economics of the business model. The satellite radio industry, which in the U.S. and Canada consists only of two companies, XM and Sirius, is still early in the growth stage, having only 11.6 million subscribers at the end of second quarter 2006. To date, the retail channel has driven the majority of subscriber growth; however, we believe the automobile OEM channel will drive more gross adds than retail beginning in 2007. We estimate that about 27% of new nonfleet vehicles will have satellite radio systems factory installed in 2006, up from 17% in 2005, and that this will increase to 52% by 2008 and to 74% by 2010.

By 2010, according to our estimates, satellite radio subscribers will reach 37 million in the U.S. and annual satellite radio revenue will be $5.2 billion, up from an estimated 14.6 million subscribers and $1.5 billion revenue in 2006. XM and Sirius should turn full-year EBITDA- and free cash flow-positive in 2008 and generate combined annual free cash flow of $1.2 billion in 2010, or $0.93 per share for XM and $0.53 per share for Sirius, by our estimation. Beyond 2010, we believe there will still be significant growth, with a 13% five-year revenue CAGR and 18% five-year free cash flow CAGR. Our model forecasts 73 million satellite radio subscribers by 2020 at an average ARPU of $13.70, with EBITDA margins of 35% and capex/sales of 2%.

Exhibit 1: Satellite Radio Subscriber, Revenue, Free Cash Flow, and EBITDA Margin Forecast



Source: Company data, Credit Suisse estimates.

XM-S-0001695

XM (Neutral): We Believe 2006 and 2007 Street Estimates Are Too High, but Longer Term, There Is Upside from Current Levels

There has been a steady flow of negative news for XM over the past five months, which has driven a 65% decline in XM's stock price since January 12. It started with the company missing its 2005 subscriber guidance and reporting astronomical fourth quarter 2005 CPGA, and then continued with news of an FCC letter regarding noncompliance of XM's radios with power emissions standards, an FTC investigation into XM's marketing practices, disappointing first quarter subscribers, lowered 2006 subscriber guidance by 500,000, a flurry of negative sell-side estimate revisions, and a lawsuit alleging that XM's CEO sold stock improperly.

While a lot of bad news is currently reflected in the stock price and it looks attractive to us based on DCF analysis, we believe that risk still exists to 2006 and 2007 consensus estimates and 2006 guidance, which makes us more cautious near term. While the stock may appear washed out, it is a stock with no valuation support; therefore, earnings momentum is the key driver of valuation. We recommend investors wait until estimates come down further before buying the stock. We believe that XM will fall short of its 8.5-million subscriber guidance for 2006; our 8.25 million estimate is near the low end of the consensus range.

We believe that XM's business model can create significant shareholder value. In fact, with proper execution, XM should have greater long-term earnings power than Sirius owing to its superior positioning in the OEM distribution channel. XM's OEM partners had a 58% share of U.S. auto sales in 2005 versus 41% for Sirius, and Credit Suisse's automotive sector analyst, Chris Ceraso, expects XM's OEM partners to gain share in aggregate at the expense of Sirius' partners.

However, we expect it will take longer for XM's business model to generate comparable earnings to that of Sirius owing to (1) the challenging economics of XM's GM agreement, (2) Sirius' commitment to a price increase in the near future (versus XM's reluctance to raise price), and (3) XM's higher churn rate, which is due mostly to the higher proportion of OEM customers compared with retail.

Sirius (Outperform): Solid Management Execution, Beatable Street Estimates, and Better Medium-Term Earnings Power versus XM

Sirius stock price has suffered in sympathy with XM's over the past several months; the stock is down 45% since its 2006 high on January 3. This has created a buying opportunity because, despite XM's problems, Sirius has consistently delivered results and we believe it is poised to beat full-year 2006 estimates and its guidance for 6.2 million subscribers by the end of 2006. We reiterate that earnings momentum is the key driver of valuations for both Sirius and XM, not multiples of 2010 cash flow or other relative valuation metrics.

Investors should own Sirius over the next year for the following key reasons/catalysts: (1) management is executing on the business plan; (2) Sirius is likely to exceed Street estimates for 2006 and 2007; (3) management has signaled it will raise prices in the future, which we believe will be within the next two years; and (4) the resolution of the dispute with the RIAA (Recording Industry Association of America) over music royalties should remove an overhang that has weighed on both stocks.

Part of Sirius' success this year has been attributable to a share shift in retail gross adds from XM to Sirius. We estimate that Sirius captured 58% of retail gross adds in the first quarter and 56% in the second quarter, versus 39% in the first half of 2005. Part of this is attributable to the launch of Howard Stern's show in January, which many view as a temporary phenomenon. However, we currently see no evidence that share is shifting back toward XM and we believe that Sirius can sustain retail share of gross adds in the low- to mid-50% range for the foreseeable future. This should be the case particularly in the third quarter, when Sirius has the opportunity to promote around its exclusive NFL programming. NASCAR will move from XM to Sirius in 2007, which should further support Sirius' retail share position.

Sirius is at a long-term disadvantage relative to XM in the OEM channel, as we outlined, but in our estimation this advantage will not lead to superior earnings power for XM until 2018. Of course, a lot will inevitably change between now and then. Sirius has a shorter path to profitability than XM and stronger free cash flow generation between now and 2018. XM has a longer growth period though and after 2018 (based on the existing OEM contracts), XM will have higher free cash flow generation than Sirius.

A Valuation Gap Is Justified Given Differences between the Value of XM and Sirius' Subscriber Bases; Quality of Subscribers/Revenue Counts; Value of GM Subscribers Should Be Severely Discounted

Sirius' consolidated enterprise value is $6 billion versus XM's at $4 billion. While this gap should narrow longer term, we believe that a valuation premium is justified for Sirius over the next few years based on an analysis of the value of XM and Sirius' subscriber bases. We estimate the incremental value of Sirius' year-end 2006 subscriber base to be about $5.9 billion versus XM's at $5.6 billion. However, we forecast this $300 million gap to widen to $1.7 billion by year-end 2008 and $2.4 billion in 2010, roughly equal to the $1.8 billion valuation gap today. By 2014, we estimate XM's subscriber base will be worth $300 million more than Sirius', thus supporting our thesis that the long-term earnings power of XM is greater than that of Sirius. The average incremental value of a Sirius customer is worth more than that of XM because of its (1) lower revenue share (due to XM's onerous agreement with GM); (2) higher ARPU (based on clear signals from Sirius that it will raise price in contrast to XM's reluctance (which is understandable given its loss of retail share); and (3) lower churn (due to lower self-pay churn and lower OEM channel exposure).

Many argue that the valuation gap should be the other way around, with XM having a higher enterprise value than Sirius owing to XM's larger subscriber and revenue base. However, this logic does not take into account the quality of subscribers/revenue, which can be measured by calculating the value of an incremental subscriber for each type of subscriber, each of which has its own unique economics. The largest hole in this argument relates to XM's GM subscribers, which we estimate have an incremental value equivalent to only 15% of the value of a retail subscriber. If we exclude the GM subscribers from XM's customer count due to their marginal value, Sirius would be larger than XM by the end of this year by about 90,000 customers, a gap that we forecast to widen to 2.7 million by 2010, after which time we expect XM to start catching up because of its more favorable OEM position.

XM-S-0001697

Exhibit 2: Incremental Subscriber Valuation

Value of an Incremental Subscriber	[illegible]								[illegible]			
Based on 2010 (Steady-State) Metrics	Retail sub	OEM Sub (non-GM)	GM Sub	Pre-Owned OEM Sub (non-GM)	Pre-Owned GM Sub	Avg Sub	Avg. OEM Sub	Avg. Pre-Owned OEM Sub	Retail Sub	OEM Sub	Pre-Owned OEM Sub	Avg Sub
Subscriber + Advertising ARPU/Month	$ 11.41	$ 11.41	$ 11.41	$ 11.41	$ 11.41	$ 11.41	$ 11.41	$ 11.41	$ 13.16	$ 13.16	$ 13.16	$ 13.16
Variable Monthly Costs:												
Music Royalties	$ (0.72)	$ (0.72)	$ (0.72)	$ (0.72)	$ (0.72)	$ (0.72)	$ (0.72)	$ (0.72)	$ (0.82)	$ (0.82)	$ (0.82)	$ (0.82)
Customer Care & Billing	$ (1.00)	$ (1.00)	$ (1.00)	$ (1.00)	$ (1.00)	$ (1.00)	$ (1.00)	$ (1.00)	$ (1.00)	$ (1.00)	$ (1.00)	$ (1.00)
Revenue Share to OEMs	$ -	$	$ (4.98)	$ -	$ (4.98)	$ (1.02)	$ (1.92)	$ (1.92)	$ -	$ (2.92)	$ (2.92)	$ (1.19)
Advertising Sales Expense	$ (0.39)	$ (0.39)	$ (0.39)	$ (0.39)	$ (0.39)	$ (0.39)	$ (0.39)	$ (0.39)	$ (0.61)	$ (0.61)	$ (0.61)	$ (0.61)
Contribution Margin (before SAC)	$ 9.30	$ 9.30	$ 4.32	$ 9.30	$ 4.32	$ 8.28	$ 7.38	$ 7.38	$ 10.73	$ 7.81	$ 7.81	$ 9.54
% Contribution Margin	82%	82%	38%	82%	38%	73%	65%	65%	82%	59%	59%	73%
Churn Rate (includes the impact of non-conversion)	1.6%	4.0%	3.6%	3.0%	3.0%	2.8%	3.9%	3.0%	1.4%	3.1%	3.0%	2.2%
Average Customer Life (Months)	63	25	28	33	33	35	26	33	71	32	33	46
Total Contribution Over Customer Life	$ 581	$ 232	$ 120	$ 310	$ 144	$ 291	$ 187	$ 246	$ 767	$ 252	$ 260	$ 437
CPGA	$ (84)	$ (84)	$ (84)	$ (42)	$ (42)	$ (88)	$ (88)	$ (88)	$ (91)	$ (91)	$ (91)	$ (91)
Incremental Lifetime Cash Generated per Sub	$ 497	$ 148	$ 36	$ 268	$ 102	$ 203	$ 102	$ 180	$ 676	$ 161	$ 169	$ 346
Value per Subscriber w/ Terminal Value	$ 909	$ 679	$ 140	$ 919	$ 350	$ 668	$ 437	$ 549	$ 1,081	$ 570	$ 389	$ 880

Source: Company data, Credit Suisse estimates

Weakness in GM Sales to Be Positive for XM and Sirius Once the Other OEMs Are Fully Ramped

Investors have always viewed GM sales weakness as negative for XM, but they should view GM sales weakness as positive for both XM and Sirius because once all the OEMs are up and running with their factory install programs, a customer that isn't buying from GM will be buying another make that carries much more favorable economics to satellite radio operators. We believe that the best thing that could happen to XM would be for more and more GM customers to switch to Honda, Nissan, and Toyota. Hypothetically, if GM sales went to zero tomorrow, even if Ford and Chrysler (both Sirius partners) picked up half of the volume it would still be a large net positive for XM because the other half would go to XM's partners and these subscribers would have 4.5 times the value of a GM subscriber.

Will Sirius' "Push" Strategy Change the Game and Take Away XM's OEM Distribution Advantage—How Secure Is XM's Exclusive Relationship with Toyota?

Sirius does enjoy a content advantage over XM, in our opinion. XM has good content and certainly some consumers even prefer XM over Sirius, particularly hard core baseball and hockey fans. However, with Sirius having the two sports with the largest U.S. fan bases —NFL and NASCAR —one has to give the advantage to Sirius when it comes to sports. With talk radio, however, the only significant difference in our minds is that Sirius has Howard Stern and XM has Opie & Anthony —again, an advantage to Sirius (by a wide margin). Both companies have a wide array of music channels and both have virtually the same news line-up.

In the retail marketplace, where consumers have a choice of providers, there is clearly, on average, a preference for Sirius, based on Sirius' retail gross add share in the mid-50% range. If customers begin to demonstrate individual preferences for one service over the other and that preference becomes a factor in their automobile purchase decisions, it is logical to assume that Toyota may rethink its exclusive factory install relationship with XM, or at least make it painless for customers to have Sirius installed as a dealer or port option. Why do we single out Toyota? Unlike the other OEMs, Toyota offers Sirius as a port and dealer-installed option today, and Toyota has designed this interchangeability into its vehicles by equipping them with dual-mode antennas and head units. Only the unit located in the trunk needs to be changed in order to switch the vehicle from XM to Sirius. Toyota is the fourth largest seller of automobiles in the U.S. and Credit Suisse estimates it will be number 2 within five years. If half of Toyota volumes were to go to Sirius over time, XM's OEM share advantage would be greatly diminished. XM's share would still be a bit higher in the out years based on our forecast for Nissan and Honda to gain share at the expense of GM, Ford, and Chrysler.

FCC FM Modulator Issue Remains

XM and Sirius both received notification from the FCC—either directly or through manufacturers of their equipment —that FM modulators on several plug and play models were not in compliance with FCC power emissions standards. We expect this issue to be resolved in the near future with no negative impact on Sirius' ability to add customers and some impact on XM, although we believe that XM's second quarter retail weakness was caused by more than just the modulator problem. Sirius experienced minimal impact to inventories during the second quarter and in the third quarter thus far.

This remains an open issue for both companies and until the FCC certifies that the equipment meets FCC guidelines it represents a risk to near-term subscriber growth, but more so for XM than for Sirius.

Valuation

- Our target prices of $17 for XM and $6 for Sirius represent about 50% upside to current market value. We derived our target prices by modeling five scenarios; discounting those scenarios using a DCF model with a 10.5% weighted average cost of capital (WACC), an explicit forecast through 2020, and 0% growth thereafter into perpetuity; and then probability weighting each scenario.
- Valuations for XM and Sirius look high by conventional valuation metrics based on our 2006-2008 estimates. However, the price/free cash flow multiples begin to look more reasonable on our 2009 estimates at 33 times for XM and 10 times for Sirius.
- We estimate peak value creation years for Sirius will be 2006-2009 and for XM 2007-2014 based on our subscriber valuation analysis.

Economics—Long-Term After-Tax FCF Margins of 22%

We believe the business model will generate 35% EBITDA margins in the long term; however, the underlying earnings power of the model is currently being masked by subscriber acquisition costs (SAC) as a result of the very high rate of subscriber growth, and fixed programming, as well as indirect marketing costs. As the revenue base grows over the next few years, SAC and programming will decline as a percentage of revenue, leading to margin expansion.

The business is not capital-intensiv e. We estimate steady-state capex/sales ratios will be in the 2-3% range. (This represents the average; it will be higher in some years and lower in others depending on the exact timing of investments in new satellites.)

Like most subscription-bas ed business models, the economics are highly sensitive to ARPU and churn rate. Exhibits 3 and 4 demonstrate the sensitivity of these two key variables on free cash flow generation. We use 2010 because it represents a more steady-state period as opposed to the next two to three years.

XM-S-0001699

Exhibit 3: Sensitivity Analysis of Churn and ARPU on FCF per Share, 2010E

SIRIUS

Sensitivity Analysis on 2010 FCF/Share

		Change in Churn Rate				
		20.0%	10.0%	0.0%	-10.0%	-20.0%
	20.0%	$ 0.71	$ 0.76	$ 0.81	$ 0.86	$ 0.91
Change	10.0%	$ 0.57	$ 0.62	$ 0.66	$ 0.71	$ 0.77
in	0.0%	$ 0.43	$ 0.48	$ 0.52	$ 0.57	$ 0.62
ARPU	-10.0%	$ 0.29	$ 0.33	$ 0.38	$ 0.42	$ 0.47
	-20.0%	$ 0.15	$ 0.19	$ 0.24	$ 0.28	$ 0.32
	Base Case Assumptions (2010)					
	ARPU	$ 13.77				
	Churn	2.2%				

XM

Sensitivity Analysis on 2010 FCF/Share

		Change in Churn Rate				
		20.0%	10.0%	0.0%	-10.0%	-20.0%
	20.0%	$ 1.67	$ 1.81	$ 2.08	$ 2.31	$ 2.58
Change	10.0%	$ 1.03	$ 1.26	$ 1.49	$ 1.73	$ 1.97
in	0.0%	$ 0.49	$ 0.70	$ 0.92	$ 1.14	$ 1.37
ARPU	-10.0%	$ (0.01)	$ 0.18	$ 0.38	$ 0.58	$ 0.80
	-20.0%	$ (0.50)	$ (0.32)	$ (0.13)	$ 0.08	$ 0.28
	Base Case Assumptions (2010)					
	ARPU	$ 11.64				
	Churn	2.8%				

Source: Company data, Credit Suisse estimates.

Risks to Our Forecast and Target Prices

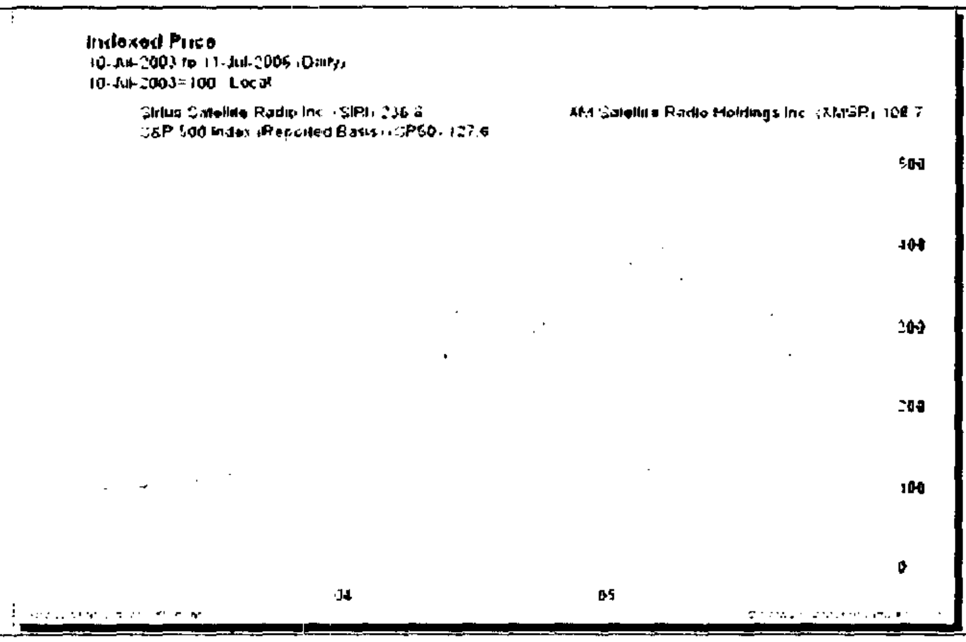
- Rate of consumer adoption. Satellite radio is a relatively immature service. If consumer demand is lower than we forecast, it could drive lower gross adds, higher churn, and lower OEM conversion rates, all of which would result in lower earnings forecasts and target prices.
- Irrational competition/high CPGA and churn. If XM and Sirius decide to compete very aggressively and drive up CPGA, this would delay profitability and a lowering of our earnings forecast and target prices.
- Escalating programming costs. While programming costs are fixed costs, when contracts expire there is a risk that (1) XM and Sirius bid up the price of exclusive content such as the NFL, or that (2) XM and Sirius have to increase payment for nonexclusive content.
- Music royalty payments increasing. XM and Sirius pay royalties to organizations representing musical artists. The amount paid under the existing contracts is equivalent to 6-7% of revenue. XM and Sirius' contracts with the RIAA, the largest of these organizations, expire at the end of 2006. They have not been able to come to an agreement with the RIAA on a new contract and, as a result, the matter is expected to go to arbitration this summer. Our base-case forecast assumes that 7% of revenue is the new royalty rate. If the actual rate goes higher than 7%, earnings would be driven lower.
- Technological substitution. If another service delivered over a different type of network, such as a terrestrial wireless network, were to enter the pay-radio market, lower satellite radio subscribers, lower ARPU, and, therefore, lower earnings and target prices for XM and Sirius could result.
- HD radio. Terrestrial radio operators have begun to offer HD (high definition) radio, which allows them to offer more channels and higher fidelity. If this effort makes consumers more satisfied with terrestrial radio, lower demand for satellite radio could result.

Historical Stock Performance

Sirius, and XM until recently, have outperformed the S&P 500 over the last three years, as shown in Exhibit 4. XM has underperformed year to date by 5,000 basis points and Sirius by 3,700 basis points.

The sell-off in both stocks was driven by investors' concerns over the economics of the business model, consumer demand for satellite radio, and potentially irrational competitive behavior between XM and Sirius. More specifically, concerns include (1) slowing retail demand for the product, (2) CPGA levels, (3) declining OEM conversion rates and increasing churn, (4) increasing music royalty payments, and (5) noncompliance with FCC rules regarding emission standards for the FM modulators used in XM and Sirius' equipment. Other concerns include, company-specific issues related to an FTC investigation into XM's marketing practices, the resignation of a board member over his differences with management on cost management, and a lawsuit filed against XM's CEO alleging improper sales of his XM stock.

Exhibit 4: Three-Year Stock Performance versus the S&P 500



Source: Company data

XM-S-0001701

Industry Overview

Industry Structure Allows for Growth and Strong Returns

The U.S. satellite radio industry is a duopoly comprised of Sirius Satellite Radio and XM Satellite Radio. Both companies also have equity investments in affiliates that recently began offering service in Canada. Risk of entry by new satellite radio operators is minimal due to the length of time and the investment required to acquire spectrum licenses (also, no spectrum is available at this time for a new entrant), build and launch satellites, develop chipsets, establish distribution agreements, and build/buy programming capabilities. However, there is some risk that substitute content delivery methods emerge, creating more competition within the sector. Potential threats include (1) Internet radio delivered to portable wireless communication devices such as cell phones, (2) HD terrestrial radio, which the terrestrial radio companies have begun to deploy, (3) terrestrial wireless-based services utilizing new technologies such as MediaFLO or DVB-H, and (4) substitution from downloaded content onto MP3 players.

Satellite radio is well positioned versus these potential threats, in our opinion, because the satellite radio companies currently have all of the important components of the model in place: spectrum licenses, network infrastructure, equipment production, OEM and retail distribution, and content/programming. Satellite radio also has no legacy business interests to protect (unlike terrestrial radio). None of these potential substitutes is ready to compete with satellite radio today; the only service that actually intends to compete head-to-head with satellite radio is HD terrestrial radio. MediaFLO and DVB-H will most likely be used for video delivery rather than audio. MP3 players certainly compete for listening time, but significant rooms exists for both types of media consumption to coexist, particularly in the car. Internet radio is interesting, but there is no practical way for consumers to listen to it while away from their computers and certainly not while in their cars.

HD Radio: A Defensive Strategy with No Business Model and Virtually No OEM Distribution

Terrestrial radio operators have begun to offer HD digital radio, enabling AM and FM radio stations to broadcast programs digitally through new technologies. HD radio affords terrestrial operators two primary benefits: (1) HD allows traditional radio companies to offer more channels; and (2) the channels sound better (i.e., higher fidelity). We are not convinced, however that the new service will drive significant revenues or profits for radio companies. In short, we are not confident that HD represents a substantial business opportunity for the terrestrial radio operators. In our opinion, HD is a defense mechanism being employed by traditional radio operators against the satellite radio companies.

In our view, the incremental revenues that HD radio may provide will come primarily from advertising. A subscription revenue model has been mentioned as a possibility, but we find this revenue stream highly unlikely to gain traction.

To date, approximately 700 stations have upgraded their signals to HD, but the HD Radio Alliance, which consists of the nation's largest terrestrial radio operators, is focused on accelerating the rollout. The total number of HD stations could amount to

XM-S-0001702

over 1,000 by the end of 2006. In addition, the HD Radio Alliance has agreed to run commercial-free HD stations for the next 18 months, while spending at least $200 million to promote the new service.

The terrestrial radio companies are attempting to obtain OEM distribution today, but for the most part, we think they are five years away from realizing this. The one exception is BMW; we expect some BMW models to offer HD radio in 2007.

We think content will continue to be a differentiator for satellite radio, since it is doubtful that HD radio goes beyond music. Also, if HD radio at some point adds commercials to its music stations, there will be an even greater distinction between terrestrial HD and satellite radio, as satellite radio's music channels are commercial-free.

It's All about the Car

The draw of satellite radio for the majority of consumers is and will continue to be for use while driving, in our opinion. Other uses—wearable, at home, or at work—will be peripheral. The car is the only place, in our view, that is reasonably insulated from substitution by other products, such as portable media players and streaming content. While a consumer can, for example, use an iPOD to play music in the car if one chooses, we believe that demand for satellite radio will continue to be strong when the equipment is factory installed in cars and offers a variety of music, sports, news, and other entertainment channels. XM and Sirius also have the ability to tie subscriptions to navigation and traffic services that are also factory installed. Note that the subscription price for satellite radio is relatively inexpensive at $12.95 per month (about the cost of three lattes from Starbucks, or a pizza).

XM now offers integrated handheld radio/MP3 players that are capable of receiving live radio signals and recording live content on the device. Sirius also offers a handheld model with recording capabilities, but it does not receive live signals; however, we expect Sirius to launch a live handheld/MP3 model in the late summer or early fall. XM and Sirius' handheld products are exciting, but given the level of competition in the MP3 market and Apple's dominance, we are cautious with respect to including significant handheld sales in our forecast. We also believe that the potential for handhelds is limited by reception problems because satellite radio requires line-of-sight with satellites or terrestrial repeaters.

Satellite Radio Has the Ability to Partner with Other Service/Application Providers; Will We Ever See a Partnership with Apple?

Satellite radio is positioned to potentially profit from cooperating with other service/application providers and MP3 player producers. It is very possible that we will see satellite radio chips embedded in other portable devices, such as cell phones and MP3 players, making the service available on those devices as well. The cost of acquiring these customers would be less and, therefore, even with a revenue share to the partner, these customers could be equally profitable. Why partner with satellite radio? Because satellite radio has already made the investments in building their content portfolios, which we believe the wireless operators and MP3 manufacturers would not want to do on their own—not to mention that satellite radio has exclusive rights to certain content, making the content difficult to replicate. Furthermore, satellite networks are very efficient for broadcast purposes, which would allow the wireless operators to reserve their terrestrial spectrum for data and video applications.

A deal with Apple would, obviously, be a tremendous opportunity for Sirius or XM if they could reach an agreement. The primary incentive for Apple to enter into a partnership to include Sirius' or XM's chips would be the opportunity to add another generation/line of iPOD Another motivation for Apple would be in the case that the handheld radio/MP3 players are wildly successful and appear to be in a position to gain share at Apple's expense; by partnering, Apple could maintain more market share. However, a partnership between Apple and Sirius or XM could complicate Apple's relationships with the music recording industry, which today earns substantial revenues from iTunes music downloads.

If Apple were to offer a radio/MP3 player capable of recording songs directly from satellite radio, the music industry would see this as a direct threat to download revenues. This dispute is identical to the one that the music industry is currently having with satellite radio over its radios with recording capabilities. A disagreement with the music industry could be avoided, however, by not including the capability to record satellite radio feeds in the iPOD device. We think a satellite radio iPOD would be a viable product if it had the ability to receive the radio feed and play MP3 files, even without the ability to record broadcasts. Credit Suisse analyst Rob Semple believes that Apple might be open to such a relationship with a satellite radio operator, provided that Apple receives the chips at no cost and receives a subsidy.

Satellite Radio Business Model

The satellite radio business model is similar to that of cable television and direct-to-home (DTH) satellite operators in that it is a network-based subscription content distribution model. The key business model drivers are gross additions, churn, average revenue per user (ARPU), subscriber acquisition costs (SAC), and gross margin (which include programming costs and revenue share).

Distribution

Satellite radio equipment is sold through two major channels:

1. OEM (automobile manufacturers).
2. Retail (includes third-party retail outlets and direct web sales).

Once a customer purchases the equipment, the subscription is activated by phone or over the Web and, in most cases, the cost for several months of service is prepaid with a credit card. (The average is nine.) The service is priced at a flat rate of $12.95 per month, with discounts given for extended prepaid subscription periods. Every radio unit requires its own subscription to satellite radio service. Each subscription counts as one subscriber, even if the same individual has more than one subscription. XM and Sirius both offer "family subscriptions," whereby existing customers can add additional subscriptions to an account for $6.99 apiece. (Sirius allows three additional subscriptions, XM allows four per account.)

Programming

Content, or programming, consists of more than 150 channels of music, news, sports, talk, comedy, kids programs, traffic, and weather. Programming is a combination of (1) internally produced stations (e.g., music), (2) third-party produced channels that in some cases are simply the audio feeds of a television broadcast (e.g., CNBC) and in other cases are terrestrial radio broadcasts (e.g., Bloomberg Radio), and (3) internally produced content surrounding a core event or talent (e.g., Major League Baseball, NFL, the World Cup, Howard Stern, Oprah Winfrey). XM and Sirius also make royalty payments to organizations representing musical artists, the largest of which is the RIAA, as compensation for use of music in satellite radio broadcasts.

The key differences in the programming lineups of XM and Sirius are that Sirius has Howard Stern, the NFL, and will have NASCAR (beginning in 2007) on an exclusive basis, while XM has Major League Baseball and the NHL on an exclusive basis. Both have an extensive list of music channels and have similar lineups for national news. XM also has an exclusive Oprah Winfrey channel, which could prove to be a differentiator within the female demographic.

Network

XM and Sirius each have 12.5 MHz of spectrum in the 2.320-2.345 GHz frequency range (S-band), which is used to broadcast their services to customers. They each have an additional 12.5 MHz of spectrum that is used for uplink (i.e., transmitting content up to the satellites).

XM requires two satellites to broadcast its programming and currently has three satellites in orbit: XM-1, 2, and 3. XM 1 and 2 have experienced "anomalies," which shortened their expected useful lives to first quarter 2008. XM-3 was launched in February 2005 as a replacement; XM-4 is scheduled to be launched in the second half of 2006 as the second replacement satellite. XM-5 is scheduled to be completed in 2007 and will serve as a ground spare.

Sirius requires three elliptical satellites to deliver its service and currently has three in orbit, plus one ground spare. Sirius recently signed a contract to build and launch a geostationary satellite, which is scheduled to be launched in fourth quarter 2008, in order to improve reception quality.

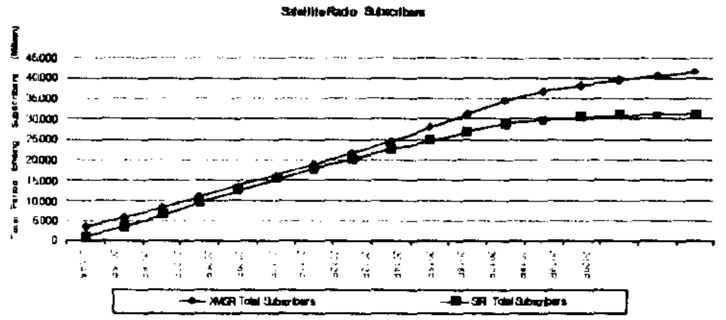
Both companies also have a network of terrestrial repeaters, which provide a signal to areas that are not in line-of-sight with a satellite owing to topography, buildings, or other obstructions. XM has about 800 repeaters while Sirius has about 140. We believe that Sirius does not require as extensive a repeater network as XM because Sirius' satellites are at a steeper look angle and can, therefore, deliver signals to customers with less topographical interference than XM's.

Industry Forecast

Subscriber Growth

There were 11.6 million satellite radio subscribers at the end of the second quarter, 85% more than a year ago. We project this to increase to 26 million by 2008, 37 million by 2010, and 63 million by 2015. As depicted in Exhibit 5, we project Sirius will add more net subscribers than XM in 2006-2009 based on better performance in the retail sales channel and a greater percentage of gross adds converting into net adds, rather than being used to replace churned subscribers. However, we estimate XM will grow faster than Sirius beginning in 2011 as a result of XM having greater share of the OEM channel and our expectation that XM's OEM partners in aggregate gain market share while Sirius' partners lose share.

Exhibit 5: Satellite Radio Industry Subscriber Forecast



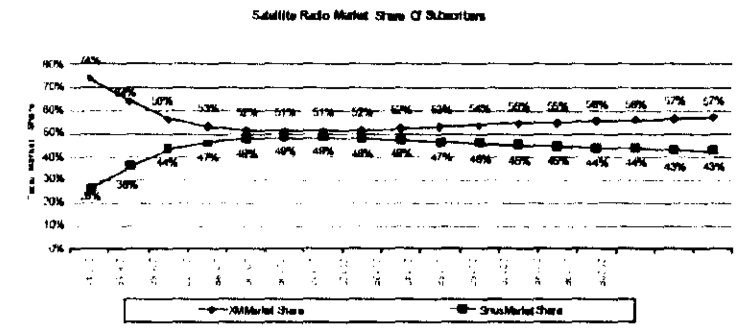
Source: Company data, Credit Suisse estimates

Market Share Shifting to Sirius in the Near Term

Market share is currently split 60/40 in favor of XM, but share is shifting toward Sirius due to (1) higher share of retail gross additions going to Sirius versus XM, (2) XM's larger subscriber base, which means that Sirius needs fewer gross adds to service churn, and (3) Sirius is beginning to ramp its OEM channel. We forecast market share to continue to shift toward Sirius through 2010, but then to swing back toward XM based on its greater share of the OEM channel.

XM-S-0001706

Exhibit 6: Satellite Radio Industry Market Share



Source: Company data, Credit Suisse estimates

Push versus Pull: XM and Sirius Play to Their Strengths

XM has secured a superior position over Sirius in the OEM channel, having reached long-term factory installation agreements with auto manufacturers representing 58% of U.S. auto unit sales (based on 2005 sales). Not only does XM have a better OEM share position today, but its OEM partners in aggregate should increase their market share in the future, while Sirius' partners lose share. Sirius' OEM factory installation partners have 41% market share today.

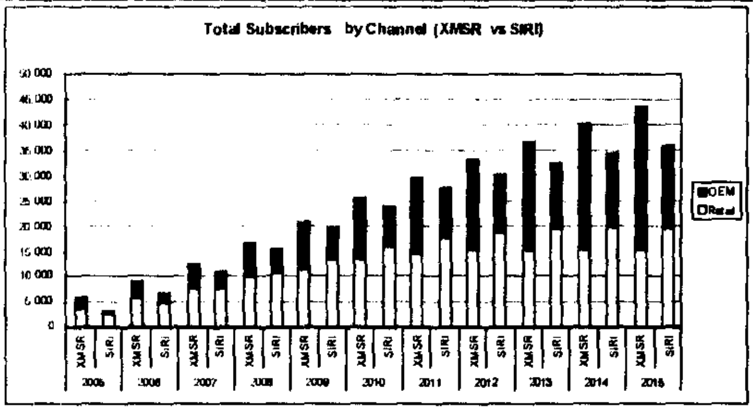
For Sirius, the OEM share disparity means that it must strive to offer better content in order to pull demand through the retail channel and potentially encourage an OEM to switch from XM to Sirius, and motivate XM OEM customers to switch from XM to Sirius by purchasing an additional piece of equipment. Otherwise, Sirius will have to accept a lower long-term market share position, which would put it at a disadvantage to XM in negotiating exclusive content rights, partnering with other industries/compa nies, and content and equipment pricing.

Having a better content offering than XM is at the heart of Sirius' strategy. XM doesn't have to beat Sirius in content given its better OEM position, but XM does need to ensure that the perceived gap between its content and that of Sirius doesn't become too wide. Otherwise, in the future XM would risk losing significant retail share, experience higher OEM churn, and potentially lose OEM partners. With an estimated 55/45 split of retail gross adds currently, we believe the gap between XM's and Sirius' content is not that great today, but it does favor Sirius. This may be exacerbated by Sirius' marketing around the NFL in the third quarter and NASCAR moving from XM to Sirius in 2007, but this should be somewhat offset by Oprah Winfrey's channel launching in the fall on XM.

Exhibit 7 breaks down our subscriber forecast through 2015 into retail and OEM subscribers for XM and Sirius. The chart illustrates the ramp in the OEM channel, which is only in its very early stages today, and also shows our forecast for maturity of the retail channel by 2012 as a result of the OEM installation rate reaching an estimated 86% of new automobiles. The OEM forecast includes customers with preowned cars that have satellite radio factory installed in their vehicles.

XM-S-0001707

Exhibit 7: OEM and Retail Subscribers, 2005–2015E



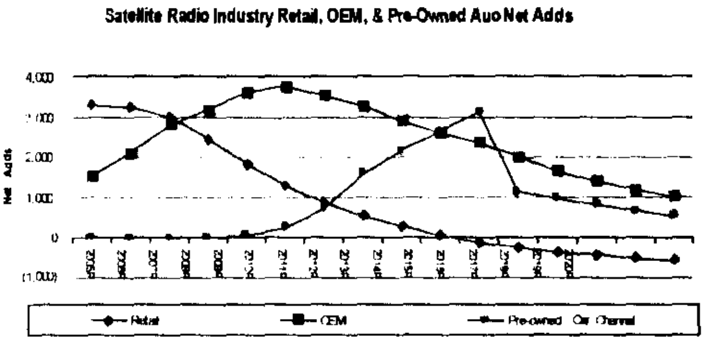
Note: OEM includes the preowned auto channel.
Source: Company data, Credit Suisse estimates

Retail Has Been the Primary Driver of Growth, but OEM Will Drive More Growth than Retail Beginning in 2008

Exhibit 8 depicts retail and OEM net adds for the industry. In 2005, retail/direct sales drove two-thirds of subscriber growth, while OEM drove one-third. We forecast this relationship to nearly invert by 2009 as satellite radio becomes standard equipment on an increasing number of vehicles. (We believe it will reach 90% of nonfleet vehicles by 2013.) The logical result of full satellite radio availability in new cars is a decline in the number of retail gross additions given that most retail subscribers are using the service primarily for the car. While the new handheld products that integrate satellite radio with MP3 player functionality are exciting, portable radio listening is a very small percentage of total radio listening, at least based on the terrestrial radio experience. Therefore, unless satellite radio's handhelds actually change listening patterns dramatically or the integration of MP3 players makes them that much more attractive for consumers, once there is full availability in new automobiles fewer consumers will buy through retail.

XM-S-0001708

Exhibit 8: Retail, OEM, and Preowned Auto Net Additions



Source: Company data, Credit Suisse estimates.

Shift toward the OEM Channel Will Favor XM

XM has exclusive factory install relationships with GM, Honda/Acura, Nissan/Infiniti, Toyota/Lexus, Hyundai, and Suzuki. In aggregate, XM's exclusive OEM relationships represented 56% of U.S. auto unit sales in 2005 (after adjusting for an estimated 15% of Toyota sales going to Sirius through its dealer and port installation agreement, which accounts for 200 basis points of share). Sirius has exclusive relationships with Daimler Chrysler, Ford, BMW, Mitsubishi, Audi/Volkswagen, and Kia, which constituted 43% of 2005 U.S. auto unit sales (including an estimated 15% of Toyota).

We expect the OEM share disparity between XM and Sirius to widen in the future as U.S. auto manufacturers continue to lose share to global competitors. Exhibit 9 forecasts market share for XM's and Sirius' OEM partners. XM's partners had 55.2% share of U.S. unit sales in 2003, which increased to 57.8% in 2005 (unadjusted for Toyota). We project XM partners' aggregate share to increase 220 basis points, to 60%, by 2010, and to 62.4% by 2015. Sirius partners' aggregate share was 43.3% in 2003, and declined to 40.8% in 2005. We forecast Sirius partners' share to decline to 38.6% in 2010 and to 36.2% in 2015.

XM-S-0001709

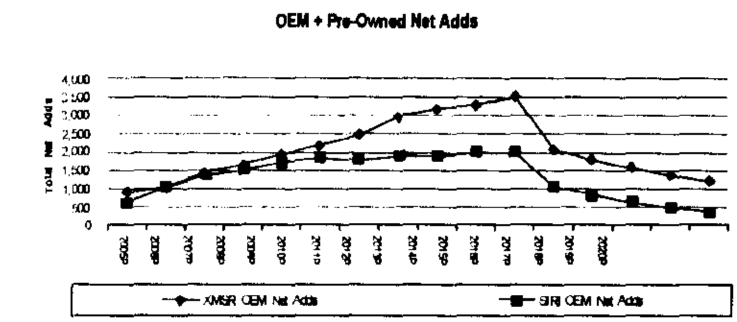
Exhibit 9: OEM Market Share, XM versus Sirius, 2003–2015E

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
OEM Market Share													
GM	28.3%	27.6%	26.3%	23.3%	22.4%	21.5%	20.5%	19.5%	19.0%	18.5%	18.0%	17.5%	17.0%
Toyota/Lexus	11.2%	12.2%	13.3%	14.8%	15.8%	16.5%	16.8%	17.1%	17.4%	17.5%	17.6%	17.7%	17.8%
Honda	8.1%	8.3%	8.6%	9.3%	9.7%	10.0%	10.3%	10.5%	10.8%	11.0%	11.2%	11.4%	11.6%
Nissan/Infiniti	4.8%	5.8%	6.4%	6.6%	7.0%	7.3%	7.7%	8.2%	8.7%	9.2%	9.5%	9.8%	10.1%
Hyundai	2.4%	2.5%	2.7%	2.9%	3.0%	3.3%	3.6%	3.8%	4.0%	4.2%	4.4%	4.6%	4.7%
Suzuki	0.4%	0.4%	0.5%	0.6%	0.6%	0.8%	0.9%	0.9%	1.0%	1.0%	1.1%	1.1%	1.2%
Total XM Factory Exclusive OEM I	55.2%	56.9%	57.8%	57.5%	58.6%	59.4%	59.7%	60.0%	60.8%	61.4%	61.8%	62.1%	62.4%
Ford	22.2%	21.0%	19.9%	19.7%	18.8%	18.0%	17.6%	17.3%	16.6%	16.2%	16.0%	15.8%	15.5%
DaimlerChrysler	14.1%	14.4%	14.9%	15.1%	14.6%	14.6%	14.6%	14.5%	14.3%	14.0%	13.7%	13.5%	13.3%
BMW	1.7%	1.8%	1.8%	1.9%	2.0%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	2.0%
Audi/Volkswagen	2.3%	2.0%	1.8%	1.9%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Kia	1.4%	1.6%	1.6%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%	2.4%	2.5%	2.6%	2.7%
Mitsubishi	1.5%	1.0%	0.7%	0.7%	0.6%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
Total Sirius Factory Exclusive OE	43.3%	41.7%	40.8%	41.1%	40.0%	39.2%	38.9%	38.6%	37.8%	37.2%	36.8%	36.5%	36.2%
Non-Exclusive OEMs													
Subaru	1.1%	1.1%	1.2%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Isuzu	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Porsche	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Non-Exclusive OEM Share	1.5%	1.5%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%

Source: Company data, Credit Suisse estimates.

We believe that XM's higher OEM market share will translate into significantly higher OEM net adds compared with Sirius beginning in 2011 as Toyota, Nissan, and Hyundai accelerate production of vehicles with factory installation over the next couple of years. Exhibit 10 depicts our OEM net add forecast.

Exhibit 10: OEM + Preowned Auto Net Additions, XM versus Sirius



Source: Company data, Credit Suisse estimates.

Family Subscriptions

Once an individual has a satellite radio subscription, additional "family" subscriptions for other radio units may be taken (for use in the home, another car, or a portable) for $6.99 apiece. XM allows subscribers to take up to four family subscriptions per account; Sirius allows three per account. Family subscriptions are counted as additional subscribers and represented 12% of Sirius' and 19% of XM's total subscribers at the end of 2005. We forecast this to increase to 30% of subscribers for Sirius and 35% for XM by the end of the forecast period.

XM-S-0001710

Family plan subscribers accounted for about 30% of XM's net adds over the past two quarters versus about 13% for Sirius. We believe that the disparity in family penetration levels is due to XM marketing family plans more aggressively than Sirius.

Churn: Heading Higher, Driven by Increased OEM and Auto Replacement Cycle

We believe that total churn for XM will increase to 2.9% over the next three years (from an estimated 2.6% in 2006) and for Sirius, to 2.2% (from an estimated 2.0% in 2006). The increase is a natural consequence of the auto replacement cycle and nonconversion of OEM customers. We assume in our base case that XM's conversion rate stays flat at about 54%, while Sirius settles in at 55% (slightly higher because Sirius has longer promotional periods). The average new automobile ownership period is about four years, which means that even if every subscriber that converted after the OEM promotional period stayed until the car were sold, the churn rate for OEM subscribers who converted would be 2.1%.

In order to calculate the total churn rate, we add the impact of nonconversion , which is equivalent to another 180 basis points for customers with a 3-month promotional period (e.g., GM/XM) or another 120 basis points for customers with a 12-month promotional period (e.g., Chrysler/Sirius) . This brings total OEM churn rates to a range of 3.3-3.9%, depending on the specific OEM. Because most of these vehicles have useful lives beyond the four-year initial ownership period (the average life of a car is about ten years), it means that the next owner of a vehicle may also become a subscriber; therefore, at least a portion, and perhaps all in some cases, of the SAC can be avoided on the second owner, thus increasing return on investment.

However, XM and Sirius have not yet figured out how to sell to the preowned market segment and one of the tactics we believe they are contemplating is establishing distribution agreements with owners of multiple used car dealerships (e.g., Penske, Auto Nation), which would involve paying commissions to the dealers (similar to retail). Note that the average used car buyer is of a lower demographic profile than the average new car buyer and is, therefore, less likely to subscribe, owing to price sensitivity, and will have a higher propensity to churn.

In analyzing satellite radio churn, we look at it two ways: with and without OEM nonconversion. What we mean by nonconversion is the group of customers that become satellite radio subscribers through the OEM channel, but do not opt to become subscribers after the expiration of the initial subscription period that was included in the price of the car.

Using the traditional churn calculation, which is total disconnects divided by average subscribers, we arrive at a number that accurately reflects the economic cost of churn (i.e., SAC). However, as a measurement of customer satisfaction with the product, the traditional churn calculation paints a picture that is more negative than reality, in our opinion. The reason for this is that some percentage of customers becomes subscribers as a result of purchasing a new car that happens to have satellite radio factory installed and a subscription fee built into the price of the vehicle. Many of these new automobile

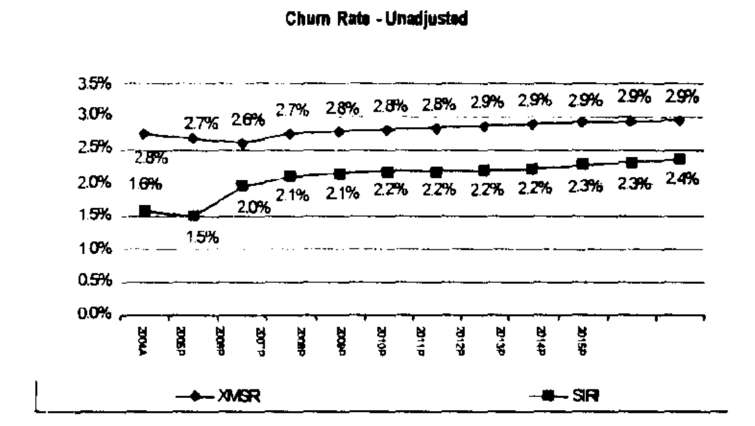
XM-S-0001711

buyers would not have otherwise subscribed to satellite radio. As a result, many in this group of customers do not opt to subscribe at the end of the initial subscription period and, therefore, become disconnects, or add to churn.

The economic reality of OEM distribution, particularly as the installation rates increase over the next few years, is that a portion of SAC (about 45% of OEM SAC today for XM) will be spent on customers that are not going to stay because they were not interested in the service to begin with. We account for this in our models; however, when looking at churn as an indicator of demand for satellite radio, we should also look at churn excluding the impact of OEM nonconversion.

Exhibits 11 and 12 show historical and forecast churn rates for XM and Sirius. Exhibit 11 is total churn, including the effect of OEM customers not converting, and Exhibit 12 represents churn adjusted to exclude OEM nonconversion. The conversion discussion has been relevant to XM only historically because Sirius began ramping the OEM channel in 2005; therefore, its prepaid subscription periods didn't begin to expire until 2006. The difference between XM's and Sirius' unadjusted churn rates mostly relates to XM having a significant number of OEM trial customers who opt not to renew their subscriptions, while Sirius does not, owing to it being earlier in the ramp up of its OEM channel. We project XM to have higher long-term churn rates than Sirius because we believe XM will have more OEM customers as a percentage of its channel mix and because XM has shorter promotional periods on average today. We also forecast Sirius to have slightly lower retail churn than XM, which we believe is the case today.

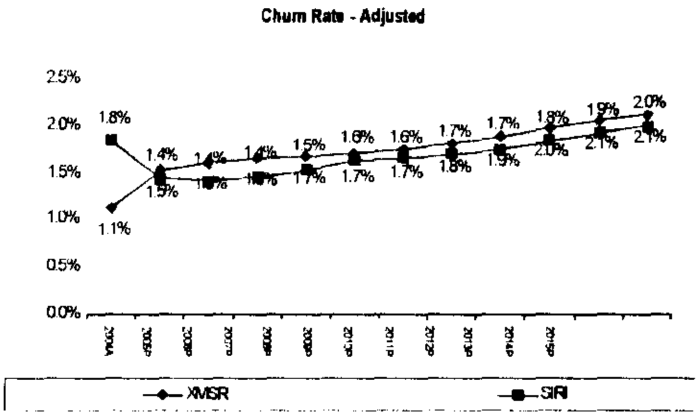
Exhibit 11: Churn Rates, Unadjusted



Source: Company data, Credit Suisse estimates

XM-S-0001712

Exhibit 12: Churn Rates, Adjusted for OEM Nonconversion



Source: Company data, Credit Suisse estimates.

OEM Conversion Rates

Most new automobiles with factory installe d satellite radios also include a prepaid subscription to the service in the purchase price. These range from 2-12 months in duration. For example, GM car buyers receive three months of service (one of which is a free month provided by XM as opposed to a prepaid month), Ford and Mercedes buyers receive 6 months of Sirius service prepaid, and Chrysler buyers receive 12 months of Sirius service prepaid.

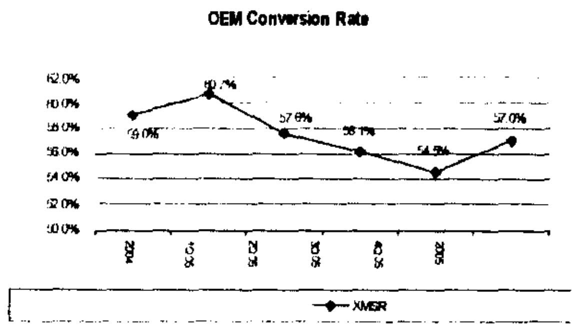
Some OEMs—namely, Toyota and Audi/Volkswagen —do not include a prepaid subscription period; instead, they include three months' free service, in which case they are not counted as customers unless they become paying subscribers after the free period. These customers also do not drive churn from nonconversion. The effect of these customers on the key operating metrics is to lower OEM churn, and to drive higher SAC/CPGA, and lower gross adds.

The only data that are available today on conversion rate are from XM. In 2004, the conversion rate was 59%; it increased to 60.7% in first quarter 2005 and declined steadily each quarter, reaching 54.5% in fourth quarter 2005 and 54.3% in first quarter 2006. As the rate of satellite radio factory installation increases, it is reasonable to expect the conversion rate to decline because more people that don't want the service will end up taking it. However, we believe that this phenomenon may be offset by the growth in popularity of satellite radio among consumers.

Exhibit 13 depicts XM's actual OEM conversion rates in 2004 and 2005.

XM-S-0001713

Exhibit 13: Historical OEM Conversion Rates for XM, 2004–05

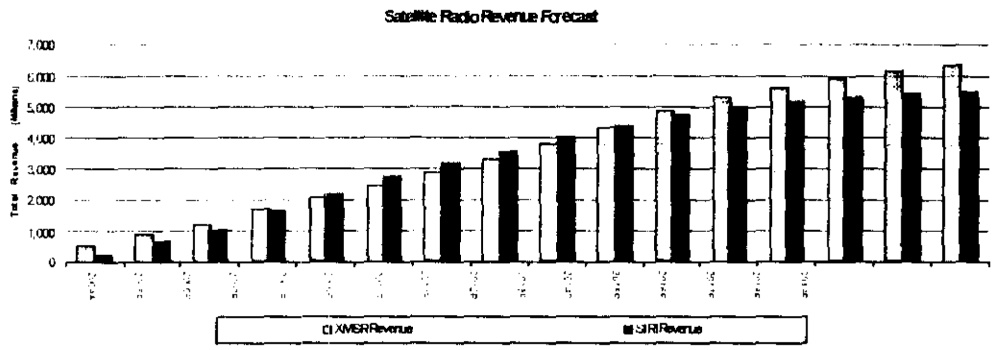


Source: Company data, Credit Suisse estimates.

Revenue Forecast

We forecast satellite radio industry revenue to nearly double in 2006, to $1.55 billion, to increase to $3.3 billion in 2008, and to $5.2 billion in 2010, as shown in Exhibit 14.

Exhibit 14: Industry Revenue Forecast



Source: Company data, Credit Suisse estimates.

Revenue Mix and ARPU Forecast

Ninety percent of satellite radio revenue currently comes from subscription fees, 3-4% is from advertising, and the remainder is from equipment and activation fees. Over time, we believe that advertising revenue per subscriber will increase as the customer base grows and becomes increasingly attractive to national advertisers. We estimate advertising will represent 10% of revenue of by 2010. Note that satellite radio is not in a position to target the local advertising market, where terrestrial radio earns its living, due to satellite radio's lack of local content and insufficient spectrum to deliver it.

XM-S-0001714